"ADAPTING ALTERNATIVE NON-PRICE POLICY OPTIONS IN A WAGE RIGID MARKET-THE CASE OF KENYA'S 2016/17 BUDGET"

AN ECONOMIC PAPER FOR DECISION MAKING IN TRADE UNIONS IN KENYA

BY

OWIDHI GEORGE OTIENO

ECONOMIST

CENTRAL ORGANIZATION OF TRADE UNIONS –COTU (K)

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Table of Contents

List of Tables

Table of Figures

A. ADAPTING ALTERNATIVE NON-PRICE POLICY OPTIONS IN A WAGE RIGID MARKET-THE CASE OF KENYA'S 2016/17 BUDGET

1.0 INTRODUCTION

The Central Organization of Trade Unions, COTU (K) remains keen on its contributions to informed policy that leads to well-rounded workers globally. COTU (K) is pertinent to policy issues in the labour market as it acts as a watchdog to foresee worker-friendly policy initiatives and decisions. These policy concerns are in line with COTU (K)'s mandate to protect, promote and uphold decent work in Kenya through constant review of employment situation and opportunities in Kenya; promoting effective and consultative Social Dialogue; Enhancing Social protection by closely monitoring and influencing the operations of NSSF and NHIF while ensuring that the fundamental rights and freedoms of workers are upheld.

As such, the decision to exit the European Union (EU) by Britain is a big blow to the global solidarity strides that enhance socio economic integration and international solidarity. No wonder the world economic forum concentrated on how economic diversification, efficiency and transformation could provide quality job opportunities for the ballooning youth population. Domestically, the current proposed budget for Kenya for the period 2016/17 speaks more on the possible socioeconomic outcomes over the period in question. The proposed taxation on basic goods and services have possible negative impact on the cost of living in Kenya's wage rigid market.

This month's economic paper focuses on the benefits and negative effects of the proposed Budget for Kenya 2016/17 as well as the effects of outsourcing on decent jobs as a follow-up of COTU (K)'s call for an end to outsourcing while creating decent jobs for economic posterity.

On the basis of the above two thematic areas of focus and the labour market concerns, this paper as well highlights some of the social and economic ventures that economies should invest in in order to realize the gains of the current global youth bulge as a vital economic strength.

The paper kicks off by giving a brief analysis of the Consumer Price Indices and Inflation Rates for the month of May 2016; and concludes with policy recommendations geared towards promoting decent work in Kenya.

In a nutshell, this paper "***Adapting alternative non-price policy options in a wage rigid market-the case of Kenya's 2016/17 budget***" gives non price policy propositions that have minimum impact on the cost of living but achieves the policy goals.

2.0 BRIEF ANALYSIS OF THE CONSUMER PRICE INDICES FOR THE PERIOD APRIL 2015 TO MAY 2016

The CPI increased by 0.68 per cent from 167.07 points in April 2016 to 167.99 points in May 2016. It was observed that during the month of May, there were notable increases in prices of some food items such as Green maize (6.6%), Kerosene (6.7%), Diesel (6.1%) and maize flour (4.4%). This led to a 0.82% increase in Food and Non-alcoholic drinks index while the transport index increased by 0.55 per cent.

The Consumer Price Indices for the last 14 months are as shown in the table 1 that follows (February 2009=100)

Table 1: CPIs for Kenya for the Period April 2015 - May 2016

Month	**Consumer Price Indices**						
	Kenya	% change from previous month	Nairobi Lower Income Group	Nairobi Middle Income Group	Nairobi Upper Income Group	Nairobi Combined	Rest of Urban Areas
April 2015	158.70	1.82	161.85	137.74	137.67	155.12	158.70
May 2015	159.98	0.81	162.09	138.95	138.93	155.63	159.98
June 2015	160.46	0.3	162.47	140.70	139.25	156.34	160.46
July 2015	160.57	0.07	162.74	141.17	141.35	156.72	160.57
August 2015	160.90	0.21	162.78	141.66	143.53	156.96	160.90
Sept 2015	161.33	0.27	163.13	142.04	143.35	157.30	161.33
Oct 2015	162.13	0.50	164.26	141.93	143.05	158.07	162.13
Nov 2015	162.97	0.39	166.02	141.75	142.70	159.29	162.97
Dec 2015	164.72	1.07	167.48	145.22	143.34	161.20	164.72
January 2016	165.37	0.39	167.60	144.24	144.30	161.09	165.37
February 2016	164.67	-0.42	167.38	143.39	144.19	160.72	167.44

March 2016	165.92	0.76	169.19	143.78	144.21	162.12	168.58
April 2016	167.07	0.69	170.86	143.97	145.61	163.42	169.62
May 2016	167.99	0.68	172.02*	144.95*	146.60*	164.53*	170.77*

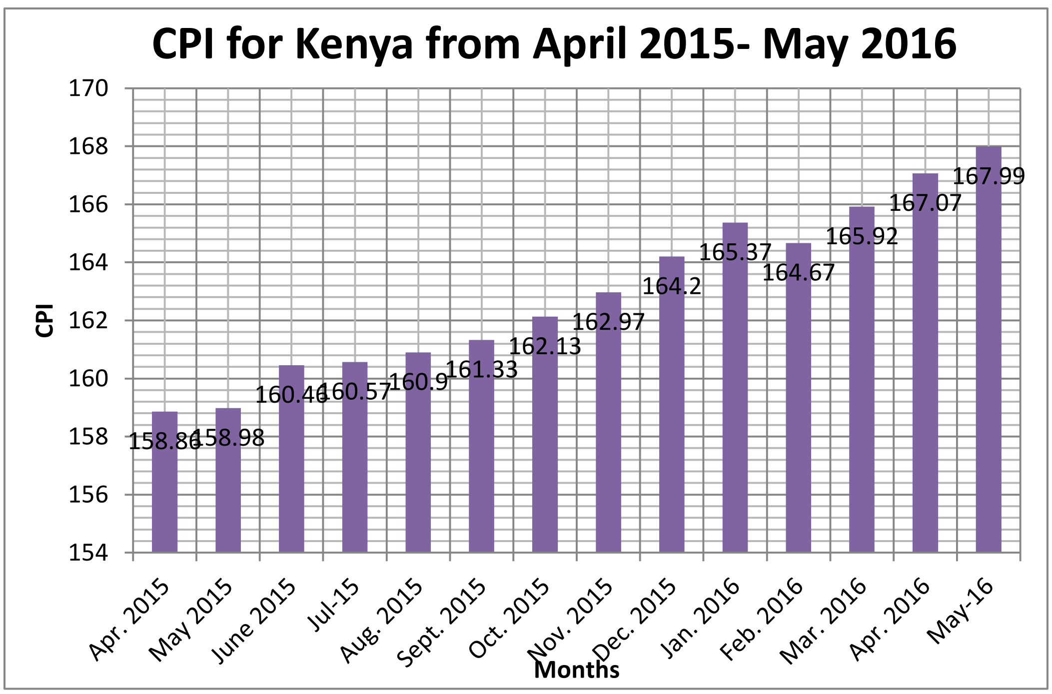
Source: KNBS

Notes: 1. * Authors' estimates based on overall change in the CPI

2. Nairobi Lower Income Group are households that spent less than Kshs. 23,670 in October 2005; Nairobi Middle Income Group are households that spent between Kshs. 23,671 to Kshs. 119,999 in October 2005 while Nairobi Upper Income Group are households that spent above Kshs. 120,000 in October 2005. The Rest of urban areas are Mombasa, Malindi, Machakos, Nyeri, Thika, Nakuru, Kisii, Kisumu, Eldoret, Nyahururu, Garissa and Bungoma.

The graphical representation of the CPI for the 14 months is shown in figure 1 that follows:

Figure 1: Graph of Kenya's CPIs for the period April 2015-May 2016



Source: Author's construction based on KNBS data

The data presented on table 1 and figure 1 show a steady rise in CPIs from a low of 158.86 points in April 2015 to a high of 165.37 points in January 2016 before falling to 164.67 points in February 2016. The CPI has since then been on a steady rising trend to a high of 167.99 in May

2016. This shows that the cost of living continues to rise, worsening the purchasing power of the workers day by day.

3.0 BRIEF ANALYSIS OF THE INFLATION RATES FOR THE PERIOD APRIL 2015 TO MAY 2016

The overall inflation rate for May 2016 has been stated by KNBS as 5.00, the lowest since June 2013. This is a 5.12 per cent decline from the April 2016 inflation rate of 5.27 per cent.

The inflation rates for the last 14 months are as shown in table 2 that follows (February 2009=100)

Table 2: Kenya's Inflation rates for the period April 2015- May 2016

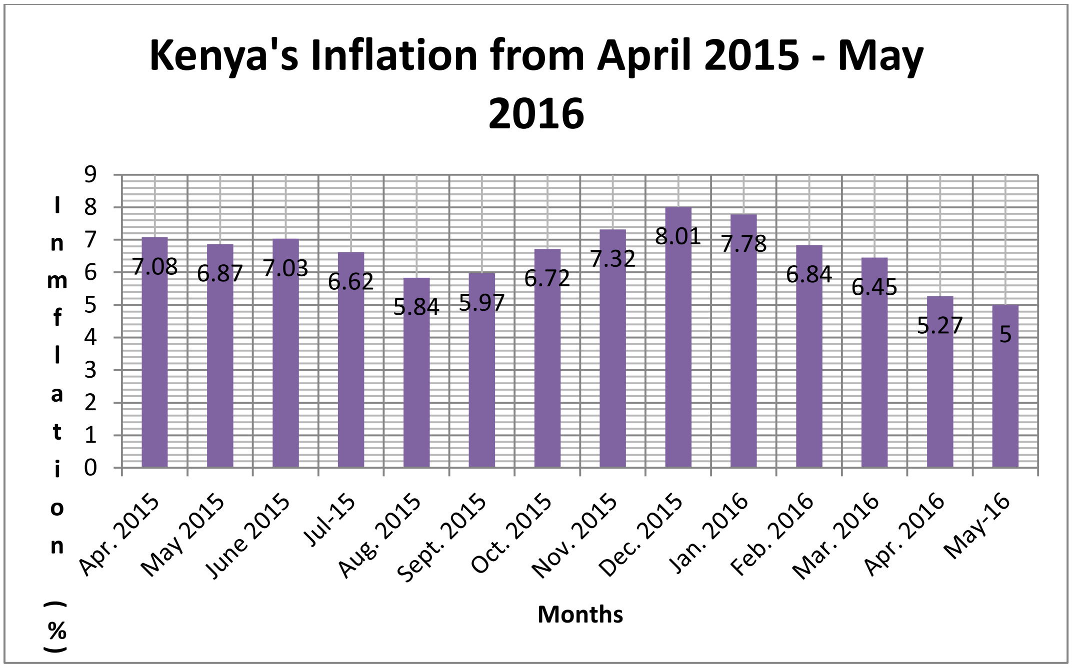
Month	**Inflation Rates (%)**						
	Kenya	% change from previous month	Nairobi Low Income Group	Nairobi Middle Income Group	Nairobi Upper Income Group	Nairobi Overall	Other Urban Areas
April 2015	7.08	10.88	7.49	3.39	1.90	6.39	7.55
May 2015	6.87	-2.97	6.98	3.76	1.86	6.09	7.39
June 2015	7.03	2.33	7.32	4.63	1.77	6.53	7.38
July 2015	6.62	-5.83	7.26	4.22	2.95	6.44	6.75
August 2015	5.84	-11.78	6.03	4.34	2.56	5.54	6.05
Sept 2015	5.97	2.23	6.18	4.84	2.79	5.77	6.10
Oct 2015	6.72	12.56	7.23	4.87	3.50	6.58	6.82
Nov 2015	7.32	8.93	8.60	5.03	3.38	7.63	7.12
Dec 2015	8.01	9.43	8.70	7.09	4.83	8.21	7.87
January 2016	7.78	-2.87	7.68	5.91	5.44	7.22	8.16
February 2016	6.84	-12.08	6.94	5.24	5.51	6.53	7.04
March 2016	6.45	-5.70	6.54	4.88	5.21	6.13	6.67
April 2016	5.27	-18.29	5.57	4.52	5.76	5.35	5.22
May 2016	5.00	-5.12	5.28*	4.29*	5.47*	5.08*	4.95*

Source: KNBS

*Author's estimates based on overall change in inflation

The graphical representation for the Inflation rates for the 14 months is shown in figure 2 that follows.

Figure 2: Kenya's Inflation rates for the period April 2015 - May 2016



Source: Author's construction based on KNBS data

The data presented on table 2 and figure 2 shows that inflation rose steadily from 5.84 per cent in August 2015 to the highest level of 8.01 per cent in December 2015. After the sharp rise, inflation rate has been falling steadily to the May 2016 value of 5.00 per cent, the lowest since June 2013. This shows the impact of monetary policies by the treasury that are yielding positive implications in the financial market.

4.0 BRIEF ANALYSIS OF THE PROS AND CONS OF KENYA'S 2016/17 BUDGET PROPOSAL

Workers form the largest share of basic economists. With the little income that they earn, they are limited and bound to maximize their satisfaction irrespective of the unlimited wants that lie on their table. In the process, each year's budget presents an alternative, if not a different algebraic set up to reorganize and panel beat their current and future incomes to meet the basic needs.

Drawing from the Nielsen Global Survey of consumer confidence and spending intentions for the fourth quarter of 2015, most Kenyans have high affinity to save. However, their savings diminish as a result of high costs of living that force them to live from hand to mouth. As such, a brief analysis of the 2016/17 budget focusing on what it offers to as well as what it takes away from the workers become so critical.

4.1 HOW GOOD IS THE 2016/17 BUDGET TO THE ORDINARY WORKERS?

4.1.1 Increased Tax Relief

Workers will now benefit from a 10 per cent increase in the tax relief as proposed in the Budget 2016/17. As a result, the personal tax relief is set to rise from the current Kshs. 13,944.00 to Kshs. 15,338.00. This is reprieve since about Kshs 1,394 of the current payable tax will now be at the disposal of the workers.

Supposedly, workers may spend this portion to meet their unlimited wants while boosting their savings.

4.1.2 Wider tax bands

The 2016/17 budget proposal of a 10 per cent wider tax band saves the low income earning workers below Kshs. 11,181 from paying taxes. The proposal to raise the lower tax band from the current Kshs. 10,164 to Kshs. 11,181 as well brings more income to the workers' table, either to spend or to save.

4.1.3 Scrapping of VAT on Cooking Gas

The use of firewood, charcoal and kerosene by the low cadre workers as sources of domestic fuel exposes their households to unhealthy conditions posted by these unclean energy sources. However, with the proposed scrapping of VAT on cooking gas, low cadre workers will be more likely to afford it as a source of domestic fuel. Such an incentive is pro-workers since exposure to clean energy domestically is a boost to the workers' health.

Another important proposed budget move towards usage of clean energy is the slashing of the import duty on eco-friendly cooking stoves to 10 per cent. This is as well an environmental conservation move.

4.1.4 Import duty on steel

The steel industry has witnessed unfair competition from cheap imports, leading to massive job losses. As such, a proposed move to discourage importation of steel and iron by imposing a Kshs. 20,000.00 tax on every tonne of steel and iron is a wind of hope to the workers in this industry. This move will cushion workers from further job losses as well as enhance stability in the steel industry. Further, the steel industry is likely to perform better, adding to the 2016 economic wellbeing.

4.1.5 The proposed scrapping of Regulatory Levies

There is likely to be more employment opportunities in the building and construction industry. This follows the proposal to scrap all regulatory levies charged by the National Construction Authority (NCA) and the National Environmental Management Authority (NEMA). The levies by these two authorities have been so punitive, thwarting the growth of the building and construction industry. The proposed scrapping of the levies is a decent work initiative to create more job opportunities, especially to the unemployed youth.

4.1.6 Elimination of taxes on Bonuses, Overtime and Retirement Benefits

The proposed move to exempt low cadre workers' bonuses, overtime and retirement benefits from taxes are a disposable income boost. It will cushion workers from the high cost of living while encouraging hard work thereby improving their ability to invest more in production, a move that is likely to boost the economy.

4.1.7 Tax Rebates on Employers

As an employment creation initiative as well as experience gaining move, the proposed tax rebate to employers who hire at least 10 fresh graduates as interns will boost youth employability. This will as well reduce the mismatch that exist between the job market demands and supply as it will enhance fast hand industrial induction.

4.2 NEGATIVE CONSEQUENCES OF THE 2016/17 BUDGET ON WORKERS

As much as the proposed 2016/17 budget was loaded with a lot of goodies for the workers, ***there are more than meets the eye***! ***Some initiatives like the 10 per cent excise duty on cosmetics and beauty products took effect as early as the day after the budget reading!...... To make matters worse, most of the basic goods have had their prices shoot, making the cost of living to hike by very higher magnitude!*** The budget seems to take breath out of the workers, given the current socioeconomic environment. Indeed, workers are prone to suffer from the following aspects of the budget…

4.2.1 Higher and higher Costs of Living

Firstly, given that women workers are the most spenders on cosmetics, the proposed 10 per cent excise duty on cosmetics will automatically hike their spending.

Secondly, the proposed increase in the road maintenance levy by Kshs. 6 will push the tax per litre thereby increasing the costs of transport. As has been the trend, these costs will finally be passed over to the workers through increased prices of basic goods and services.

Thirdly, the proposed increase in prices of kerosene to reduce adulteration of petroleum is likely to make life harder for the poor workers who still depend on it as a source of domestic energy, and

Fourthly, the adjustment of the excise duty for inflation will further increase the prices of basic commodities and services

4.2.2 Higher costs of Manufacturing

In the spirit of increased costs of fuel on the basis of excise duty and road maintenance levy, there is likely to be more to the costs of manufacturing. Indeed, Kenya’s industrialization dream may be delayed if manufacturing costs continue to rise as has been witnessed.

Although, the excise duty inflation adjustment will be factored from the factory floor and reflected in the raw material costs, then further passed to the final consumers, the manufacturers will have to invest more to meet these costs.

And since the manufacturing sector has had some multinational companies exit Kenya on the basis of high business costs, this move could lead to more exits and further job losses.

4.2.3 Lower Savings

As the cost of living increases due to the proposed taxation while the wages and salaries remain rigid, the saving capacity of workers is at stake. This spells doom to Kenya's economic posterity as investments are more likely to shrink, fueling poor economic progress.

4.3 SOME NON-PRICE BUDGETARY POLICY OPTIONS!

Given the recovery of Kenya's economy as witnessed by the annual economic performance since 2008, the following non-price policy options could inform the budgetary process based on the 2016/17 budget estimates.

Firstly, a legal provision that is anti-adulteration of petroleum could be more efficient to address the problem rather than burden workers through taxation. This could be coupled with anti-adulteration campaigns. Learning from Tanzania, government in a bid to increase revenue collection reduced the Pay-As-You-Earn charged on salaries from 11 per cent to nine per cent. The economic aim is to increase tax compliance and reduce cost of doing business. Increased investment would thus see rising revenues. It was a win-win for the workers and employers.

Secondly, a ban on the use of plastic shopping bags and provision of an eco-friendly alternative shopping bag could save workers of the rising prices of shopping bags as well as contribute towards environmental conservation.

Thirdly, as Kenya ushers in the 2016/17 financial year, deficit financing should be tactfully handled to share the gains from the fiscal and monetary policies of the central bank of Kenya while cushioning Kenya from domestic and global economic and financial shocks.

Fourthly, the financial year 2016/17 should be a year of difference, corruption loopholes through which mega scandals were witnessed in the financial year 2015/16 should be aptly blocked. This way, Kenya will be able to handle the Kshs. 2.26 trillion budget so well, given that the Kenya Revenue Authority will effectively collect the expected revenues and revenue losses through corruption will be a history. In this regard, for instance, the proposed Kshs. 21.1 billion for the youth and women empowerment will be effectively accounted for.

And last but not least, key sectorial allocations should be enhanced to catapult economic growth. Sectors such as agriculture, health, energy, security, ICT and education should have their allocations closely monitored and reviewed to step up Kenya's economic performance.

5.0 CONCLUSION

This paper has provided clear policy propositions and thoughts that could redefine Kenya's revenue allocation, collection and use. The Central Organization of Trade Unions remains keen to see the initiation and implementation of the above policy proposals to enhance Kenya's economic growth and development while delivering on the decent work agenda.

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B. EFFECT OF OUTSOURCING ON DECENT WORK: AN ECONOMIC PERSPECTIVE

By Eva Magiri; Program Coordinator, Tom Mboya Labour College, Kisumu

1.0 INTRODUCTION

The definition of decent work as coined by the International Labour Organization (ILO), is productive work, done in conditions of freedom, equity, security and human dignity. Equally, Decent Work Agenda is defined as a balanced and integrated programmatic approach to pursuing the objectives of full and productive employment and decent work for all at the global, regional, national, sectorial and local levels. Decent work stands on four pillars; Standards and fundamental principles and rights at work, employment creation and enterprise development, social protection and social dialogue. The Decent Work Agenda combines policies under the aforementioned four pillars to create a harmony and symbiosis between them.

Although decent work as a notion was adopted and endorsed at an international platform of 150 countries at the World Summit of the United Nations General Assembly in 2005, it was to be mainstreamed at national and local levels. The main objective was to have an important instrument for achieving full and productive employment, internationally agreed development goals such as poverty eradication and other key development objectives. It was to be the key element that will assure fair globalization and curtail undesirables. One of the key undesirables of globalization recognized by the trade unions is outsourcing.

Outsourcing is subcontracting a process, such as product design or manufacturing, to a third-party. It entails transferring of the management and/or day-to-day execution of an entire business function to an external service provider. Outsourcing was not formally identified as a business strategy until 1989. It redefined the age-old phenomenon that was popularly referred to as offshoring which meant the relocation of production processes of a company abroad. The advances of the information technology played a key role in fueling this redefinition.

2.0 WHY FOCUS ON OUTSOURCING?

Outsourcing goes against the four pillars of decent work. The culprits point at their aim of reducing operation costs as the main driver of outsourcing. The highest probability of costs targeted for reduction is labour costs done through restructuring of the production units. Restructuring thus comes as an employers' adjective to refer to such activities like outsourcing of workforce to a third party. However, it is a lose-lose situation for both the employer and employee. By placing their systems in the hands of employees on whom they have no mandate, the employer would be deemed as exhibiting highly risky undertaking. Good business is equally about reducing risks and uncertainty. The biggest loser however is the worker. Outsourcing complicates the definition of an employer in an employment scenario. Consequently, it makes it difficult for workers to attain the right to Collective Bargaining with their employers, as a right granted under Section 57 of the Labour Relations Act 2007, ILO Convention 87 and Convention 98. As a result, Standards and Fundamental Principles and Rights at Work, as a key pillar of decent work is thus put under threat due to outsourcing.

Social dialogue plays a critical role in enhancing industrial harmony. It is grounded on the fundamental rights at the workplace. Social dialogue is tripartite in nature involving three partners: the government, workers representatives and employers. Effective social dialogue cannot take place where the partners are ill-defined. Therefore, the amorphous employer arising from outsourcing threatens all the aforementioned and frustrates any policies towards attainment of social protection. As such, the monetary policies generated by remarkable institutions of the economy such as the Central Bank rely on social dialogue. It thus unfolds that outsourcing is a threat of all pillars of decent work.

3.0 A PRACTICAL ANALYSIS OF THE EFFECT OF OUTSOURCING ON DECENT WORK

One of the strategies that was laid down to drive the Information, Communication and Technology sector is by attracting American and European foreign countries to massive outsourcing in Kenya as an Economic Recovery Strategy (ERS). The aim was to create 10,000 outsourced jobs by creating hubs in the public universities. Outsourcing is also a strategy laid under the Economic Pillar of Vision 2030. However, when governments allow outsourcing, they only create short-lived comparative advantage by lowering labour standards and welfare provisions and granting tax exemption to foreign firms. It is what experts from the Programme for Workers' Activities (ACTRAV) of the ILO calls "race-to-the-bottom" model. A model, highly characterized by outsourcing of a production unit and different units sub-contracted that makes it hard to trace the real employer. In pursuit of short-term comparative advantage, the Kenyan government will only be raising the barometer in the eyes of foreigners as a destination of choice while the mercury of decent workplace of its own citizens drops.

Sustainable development has never been achieved at the expense of citizens' wellbeing in any economic model.

Scholarly, studies done in 2012 showed that 96 per cent of commercial banks in Kenya have outsourced some of its services to a third party. The results of the study showed almost all the respondents rated outsourcing of bank services moderate to low, with the highest rating of 2.1 out of the possible 5.0. The study showed that majority of banks had outsourced services as an attempt to control operational costs. However, eight per cent of the banks had cancelled their contracts with the outsourcing supplier after finding out that it led to poor services and actually increased costs of business. Majority of the remaining 88 per cent remained indifferent on the benefits they saw in outsourcing. Lastly, the studies established that small banks have a higher level of outsourcing as compared to the big banks. Growth that is not pro-poor has proved to be unsustainable world over by threatening key economic institutions such as the banking systems, further threatening employment opportunities and investments.

Pay-As-You-Earn (PAYE) accounts for more than half of taxes collected in Kenya. The taxman was facing a 10 billion deficit on salary-related taxes at beginning of January 2016. It had missed its 20.9 per cent revenue growth target but instead achieved 11.7 per cent.

Trade unions remain concerned given that restructuring is used by employers to run away from outsourcing of production. The solution put forward by KRA could see it not only rollercoaster further downwards in its targets, but it's also a threat to decent work. This is to be seen as a precarious working condition arising from lack of job security, a key element of decent work. It ignores all other variables on which revenue collection is dependent and places the risks on the employee. It is not the quantity of jobs but quality that is best influencer of output.

Outsourcing in the construction industry has shown negative impact on the level of social protection of construction workers. Evidence from various countries show that employers do not pay into social security funds for workers who are on temporary contracts, yet these are workers are the most vulnerable.

4.0 CONCLUSION AND RECOMMENDATIONS

In 2015, the Harvard Center for International Development projected Kenya to be the third fastest growing economy in the world at 6.7 percent, in 2023; coming only after India and Uganda at 7.9 and 7.0 respectively. Trade unions in Kenya received the projections positively emphasizing that the realization of this dream for the country will be pegged on among others, a vibrant workforce that enjoy decent work and job security.

Trade unions should be at the forefront in advocating for pro-decent work policies by the governments. Tripartite meetings can be used as platforms to emphasize the short-livelihood of any assumed benefits of outsourcing. However, facts on the same can only be realized if the trade unions invest in research to bring new knowledge, strengthen or de-myth issues that help reduce outsourcing embrace decent work.

Kenya being a lower middle income economy it’s time for the trade unions to emphasize to the government and all economic players a few facts. Key among them is that evidence shows that as income rise in low income countries, cheap labor is no longer a cause for outsourcing from the high income, industrialized economies. Further, as income rises, so too does the demand for goods and services. The often used cliché “a rising tide makes all boats float higher” is exactly the case of these nations as they emerge to fully participate in the global economy. All actors benefit from the decent work agenda. A satisfied worker results in a higher customer retention. Higher consumer demand drives higher sales revenue which leads to further investments in productive jobs.

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